

Welfare Reform, Regulatory Change, New Infrastructure Funding, and Government Reinvention Set the Stage for 1997

The main change for 1997 is welfare reform, which is expected to have a more significant impact in rural than in urban areas. The increase in the minimum wage and earned income tax credit should boost incomes of the working poor. Funding has increased for infrastructure, including a new assistance program for drinking water systems. Many other core development programs have been reinvented and expect to provide more assistance, even though their funding has not grown. In addition, many regulatory changes will affect rural economies and the environment.

This is the second annual issue of *Rural Conditions and Trends (RCaT)* dedicated to describing Federal program and policy changes important for rural development. This issue examines budget, tax, and regulatory changes initiated in 1996 and taking effect in 1997 (the first issue looked at changes taking effect in 1996). We examine most of the larger core development programs that assist rural infrastructure, housing, businesses, and general development (including planning and technical assistance). We also examine major changes in tax and regulatory policy affecting rural areas. These are areas we intend to cover every year.

Our first Federal Programs issue (Vol. 7, No. 2, 1996) also looked at a broad range of programs not directly aimed at rural development but with important implications for development. These included agriculture, defense, health, education, training, environment and natural resources, and income support programs. This 1997 issue focuses more narrowly on core development programs. However, we also give special attention to major new legislation and regulations that are expected to have significant rural development implications. This year, we include special articles on welfare reform, the minimum wage increase, and the new safe drinking water provisions, all of which are expected to significantly affect rural development. We also include a different group of programs in our analysis of miscellaneous programs, which this year covers education, employment, training, environmental, and natural resources programs.

Like other issues of *RCaT*, our analysis is primarily descriptive. In many of our maps and figures, we use the Census Bureau's Consolidated Federal Funds Reports data (also known as Federal Funds data) to reveal where individual Federal program allocations went in fiscal year 1995 (the latest available data), on the assumption that these same places will be affected by current policy changes affecting these same programs. We use various State and county typologies so we can describe how policy changes might affect specific types of places, such as farm States or poverty counties. Data sources and typologies are discussed in appendix B.

Because of the large number of Federal programs that contribute to rural development, we are forced to focus primarily on the larger and more important programs in our analysis, particularly those that have been changed recently. Although we are limited in the number of maps and other figures we can provide for any one issue, over time we hope to present information on a wide variety of programs important to rural development.

New Format for This Issue

We have made several changes in format to improve the report. One change involves the way our tabular program funding information is presented. We have replaced the single large appendix table listing selected programs in each program area with more detailed tables presented along with the text in each program area article. This should be particularly helpful for those who obtain individual articles from the report (and not the appendix) electronically.

These new program area tables not only show changes in funding, but also indicate which types of rural places are most likely to be affected by the program. Where possible, we have used the 1995 Federal Funds data to indicate the places affected by each program. The reader should refer to appendix B for definitions of the State and county types and regions we used in these tables. This appendix also tells how to obtain our Federal Funds data, which provide funding information by individual county or State, and by the types of counties and States used in our report.

Our new appendix table 1 uses Federal Funds data for 1995 to estimate the rural percentage share of funding for selected programs in this report. Where accurate county level data exist, we present the percentage of funding in nonmetro counties. For other programs, we use State-level data to estimate the percentage of funding in rural States.

The reader may also refer to maps, charts, and tables from our previous Federal Programs issue for more insights into places affected by various Federal programs. Our new appendix C provides a list of the articles from the first Federal Programs issue, including a list of the maps, charts, and tables in each article. Referring to our first issue should be particularly useful for those interested in recent developments involving agriculture, defense, health, income support, natural resources and environment, trade, and Native American programs, which were covered in some detail in that issue but which receive little attention in this, our second, issue examining Federal programs. The first issue also provides more detail about core development programs, including their purposes and various types of assistance.

Welfare Reform Is the Biggest Change for Rural Development in 1997

Welfare reform requires that, within a set period of time, able-bodied people must move into the labor force or give up their welfare benefits. Welfare reform also includes reductions in Food Stamps, Medicaid, and some other important assistance programs, as well as increases in some other programs. It also involves the devolution of responsibility for Federal welfare assistance, from Federal to State government.

Much of the public debate surrounding welfare reform focused on conditions in the cities, including the common belief that many urban and suburban jobs are available for welfare recipients. However, as our article on welfare reform points out, many rural areas will be significantly affected by this legislation, particularly high-poverty areas in the South. Rural areas generally have higher unemployment rates than urban areas, meaning fewer job opportunities exist. Thus, adjusting to the new law could be a challenge for rural America.

Welfare reform did not occur in a vacuum; it was accompanied by changes in Federal program funding, regulations, and taxes to help affected individuals, firms, and communities adjust to the changes. Along with welfare reform came increased funding of education, training, child care, and employment programs that should help welfare recipients make the transition to gainful employment. Welfare reform also came along with an increase in the minimum wage, which should add to the earnings capability of many low-wage workers. The same legislation that raised the minimum wage provided new tax breaks for small businesses, which may help them adjust to possible higher wage costs associated with the minimum wage.

The minimum wage increase is another big story for 1997, particularly for rural workers. The prevalence of low-wage jobs in rural areas means that a larger share of rural than urban workers will benefit. The greatest benefits will be in the rural South, where low-wage industries and high poverty rates are most common. The minimum wage increase should complement welfare reform, by bolstering wage rates for unskilled workers. The recent increase in the earned income tax credit provides an even bigger boost to the incomes of low-wage rural workers. Together, the increased minimum wage and earned income tax credit may help many families rise above the poverty rate.

Another important tax change related to welfare reform is the work opportunity tax credit that goes to employers who hire from seven targeted groups and places, including people transitioning from welfare and young people in Empowerment Zones and Enterprise Communities. This is expected to help with the adjustment from welfare to work, giving employers tax savings that could be used for training or invested in job creation.

USDA Rural Development Reinvention Gets Boost From Farm Legislation

The Department of Agriculture (USDA), the lead Federal rural development agency, has been busy reinventing its development programs. For example, USDA is making major contributions to various innovative national initiatives, including the Northwest Economic Adjustment Initiative, Empowerment Zones and Enterprise Communities, Water 2000, and the Home Ownership Initiative. These initiatives tend to involve interagency coordination of funding targeted to specific needs or priorities. As such, they represent a reinvention designed to make the most of declining or stagnant development funding.

USDA's new development efforts have been accompanied by reorganization and downsizing. The three rural development services (Rural Business-Cooperative Service, Rural Housing Service, and Rural Utilities Service) have taken part in the agencywide effort to consolidate field offices. The resulting one-stop service centers are consolidating rural development offices with Farm Service Agency and Natural Resources and Conservation Service offices. Increased coordination with USDA's Cooperative Extension services is also planned. In the meantime, rural development staffing is being reduced as part of the downsizing effort. All three rural development agencies have reduced staff since 1993, and all are expected to see more of the same through 2002. In 1997, only the Rural Housing Service will see staff reductions.

The farm legislation, enacted on April 4, 1996, included several new provisions guiding USDA's reinvention of its rural development programs. This legislation created the Rural Community Advancement Program (RCAP) that gave USDA more flexibility to transfer funds among its major rural development programs (housing, infrastructure, and business assistance), enabling it to more efficiently use its funds. Although appropriations legislation for 1997 did not permit USDA to use all of its authorized flexibility (such as transferring money among its three main programs and awarding States with bonuses to encourage performance improvements), USDA is proceeding with improvements in program planning and implementation.

The farm legislation also authorized a new \$300 million Fund for Rural America, which may commit \$100 million per year beginning in 1997. The law requires that one-third be spent on USDA's existing rural development programs, one-third on rural development research, and one-third on either rural development programs or research. In its first year of operation (1997), USDA has decided to spend almost half of these funds, \$47 million, on rural development activities (fig. 1). The largest part of this, \$20 million, will support rural housing loans, partially offsetting projected declines in loan levels caused by greater-than-expected interest rates and other factors. About \$46 million from the Fund for Rural America will go to research. The purpose of the research is to gain a better understanding of rural development needs and strategies, so that rural development programs can be made more effective. The remaining \$7 million in 1997 funds goes to beginning farm loans and outreach for socially disadvantaged farmers.

Other Major Themes in 1997 Involve Regulatory Change, Increased Infrastructure Aid, and Reinvention of Core Development Programs

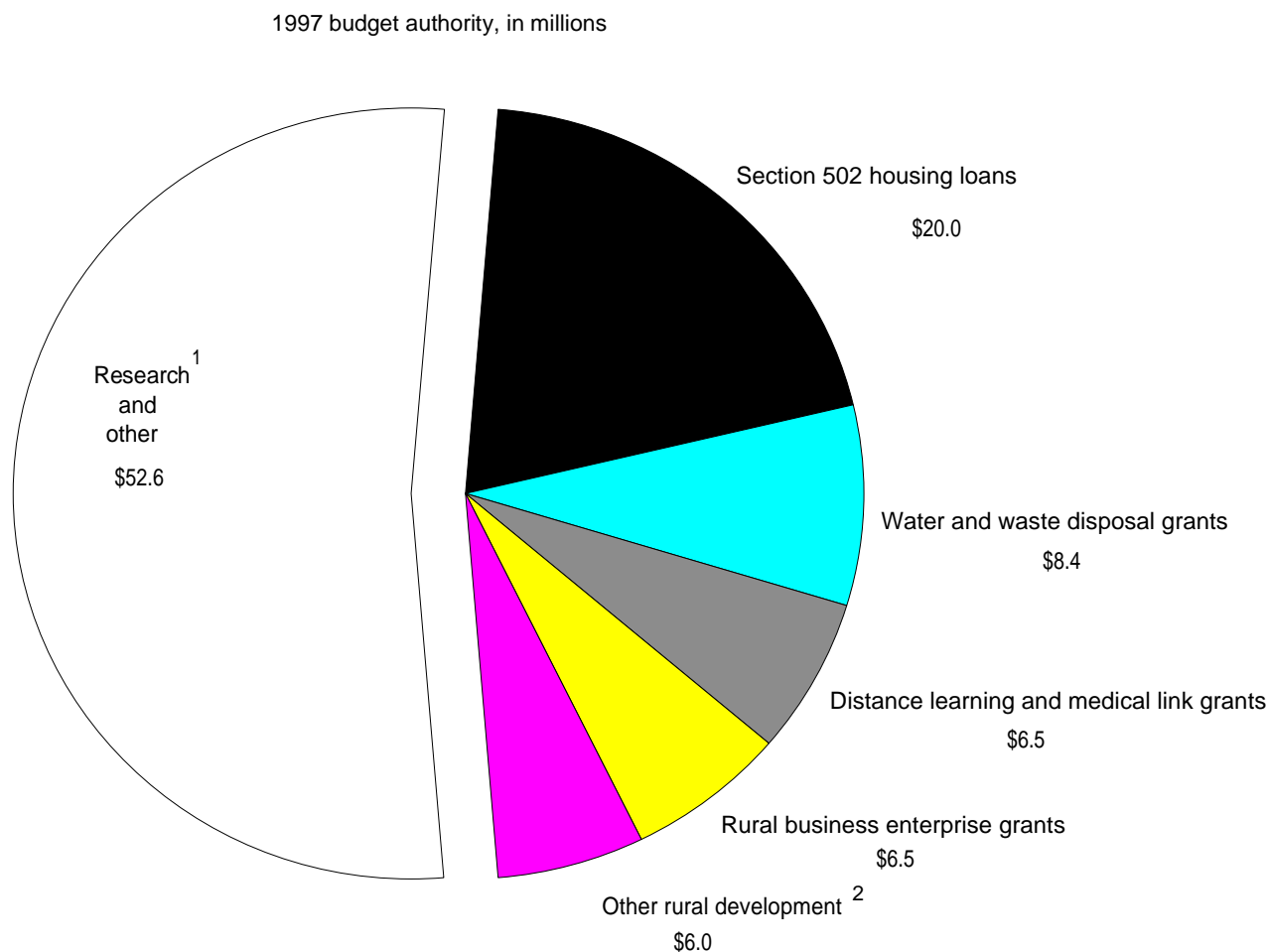
Regulatory legislation was the focus of much attention in the media in 1996 and will begin affecting rural development in 1997. New environmental regulations provide the Environmental Protection Agency (EPA) with more flexibility in formulating and enforcing its regulations covering drinking water and pesticides. They include a new financial assistance program to help communities (particularly disadvantaged rural communities) finance infrastructure improvements needed to comply with the new regulations. Small systems will be eligible for other forms of assistance, such as reimbursements for operator training and flexibility to use alternative means of complying with regulations.

Other important regulatory changes involve banking, housing, health insurance, wetlands, fisheries, parks, public lands, Social Security, immigration, and Native Americans. Several proposed regulations could also have significant nationwide effects on rural development. These include proposed regulations that would encourage telecommunica-

Figure 1

The Fund for Rural America, fiscal year 1997

Rural development activities account for 47 percent of the \$100-million total budget authority of the Fund in 1997



¹Includes research, extension and education grants, telecommunications infrastructure research, outreach for socially disadvantaged farmers, and beginning farmer loan programs.

²Includes water and waste disposal loans, farm labor housing grants and loans, alternative agricultural research and commercialization, cooperative development services, and Empowerment Zone/Enterprise Community technical assistance.

Source: Calculated by ERS using USDA 1998 Budget Summary.

tions companies to provide universal coverage of advanced communications capabilities to all rural places and EPA's proposed air quality standards, which are more stringent than earlier standards and could affect development in many rural areas.

Many core development programs received roughly the same amount of funding in 1997 as in 1996, but funding varied significantly by type of program. For example, many infrastructure programs received funding increases, particularly for environmental infrastructure. In addition to the new EPA fund for drinking water systems, with special provisions for small drinking water systems, EPA is also providing new hardship grants for wastewater systems to help small communities with low incomes and high unemployment. Rural communities will especially benefit from increased funding from USDA's infrastructure programs, including a 25-percent increase in water and waste disposal loans and grants, a 35-percent increase in telecommunications loans, and a large increase in distance learning loans and grants.

Housing, business, and general assistance program funding has remained fairly constant or decreased, but many of these programs are being reinvented to provide more assistance without receiving more funds. One common approach has involved shifting from subsidized direct loans to less expensive guaranteed loans, which involve other parties (banks, nonprofits, government-sponsored enterprises) in the lending process. This not only saves on the subsidies but achieves efficiencies by allowing others to take on responsibilities, enabling Federal agencies to downsize and reorganize for improved performance.

Many agencies are undergoing these efficiency-minded changes, but the most notable such changes involve business assistance programs, including USDA's Business and Industry Program. It is still too early to tell how successful these efforts will be in making taxpayer dollars stretch, but the fate of these and other government programs may depend on successful reinvention.

This Report Covers a Wide Variety of Programs, Taxes, and Regulatory Changes

The first four articles cover the core rural development program areas: general assistance, infrastructure, business assistance, and housing. The fifth article discusses miscellaneous programs with increasing budgets in 1997, including education, employment, training, environment, and natural resources. The next three articles cover welfare reform, the minimum wage increase, and the Safe Drinking Water legislation (including the new program to help finance drinking water projects). The last two articles deal with tax and regulatory changes. These are followed by the three appendixes. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*